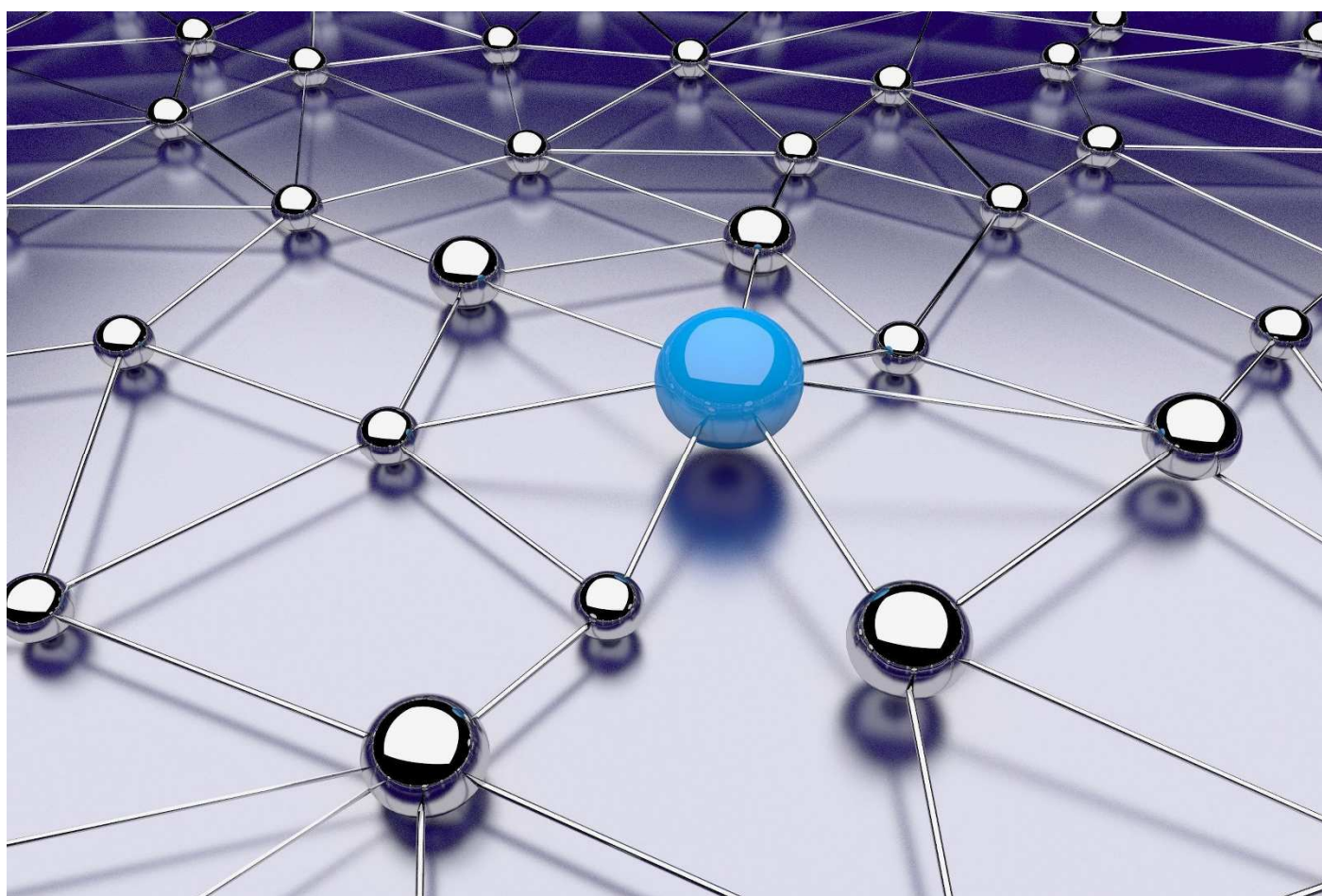


# Police and Crime Commissioner for North Yorkshire

Annual Audit Letter 2015/16

October 2016



Police and Crime  
Commissioner  
North Yorkshire



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October 2016

Mrs J Mulligan  
Police and Crime Commissioner for North Yorkshire  
Office of the Police and Crime Commissioner  
12 Granby Road  
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North Yorkshire  
HG1 4ST

Dear Mrs Mulligan

**Annual Audit Letter 2015/16**

I am pleased to present our Annual Audit Letter for the 2015/16 audit year. The purpose of this document is to summarise the outcome of the external audit of the Police and Crime Commissioner's (and group) 2015/16 financial statements and our review of your arrangements for securing economy, efficiency and effectiveness (value for money).

We carried out our audit in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Local Audit and Accountability Act 2014.

I would like to express my thanks for the assistance of all the finance team as well as management and the Joint Independent Audit Committee.

If you would like to discuss any matters in more detail, please do not hesitate to contact me on 0191 383 6314.

Yours sincerely

**Cameron Waddell**  
Partner  
Mazars LLP

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# 01

## Key messages

This Annual Audit Letter summarises the findings from our 2015/16 audit of the Police and Crime Commissioner for North Yorkshire.



# 01 Key messages

In 2015/16, our audit of the Police and Crime Commissioner for North Yorkshire (and group) was made up of two elements:

- auditing your financial statements, including a review of the Governance Statement; and
- assessing your arrangements for achieving value for money (VfM) in your use of resources.

We reported the detailed findings from our audit work to the Commissioner (as those charged with governance) in our Audit Completion Report and follow up letter, and to the Joint Independent Audit Committee.

We also completed our reporting to the National Audit Office on your whole of government accounts return. The key conclusions for each element are summarised below.

## **Audit of the financial statements**

We issued an audit report including an unqualified opinion on the Commissioner's (and group) financial statements on 28 September 2016. The audit progressed smoothly and we did not encounter any significant issues whilst undertaking our work. Any errors identified were not significant in nature and were corrected by management. Further details are set out in section 02.

We would like to highlight the support we received from staff in undertaking our work.

## **Value for money**

We carried out our work in line with updated National Audit Office guidance and concluded that the Commissioner had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We therefore issued an unqualified value for money conclusion on 28 September 2016.

## **Assurance to the National Audit Office**

We issued our report to the National Audit Office on the Commissioner's Whole of Government Accounts return on 28 September 2016. There were no matters to report.

## **Our other responsibilities**

As the Commissioner's appointed external auditor, we have other powers and responsibilities as set out in the Local Audit and Accountability Act 2014. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions about the accounts or valid objections in relation to your 2015/16 accounts from local electors, nor did we exercise our wider reporting powers.

## **Certificate**

We issued our certificate, closing this year's audit, on 28 September 2016.



# 02

## Financial statements

The Commissioner's draft financial statements required only a very small number of amendments.



# 02 Financial statements

## Audit of the financial statements

We audited the Commissioner's (and group) financial statements in line with auditing standards and we reported the detailed findings of the audit to the Commissioner and the 20 September 2016 Joint Independent Audit Committee in our Audit Completion Report and follow up letter. We issued an audit report including an unqualified opinion on the Commissioner's (and group) financial statements on 28 September 2016.

As in previous years, the audit progressed smoothly. The draft financial statements presented to us for audit were of good quality, as were the working papers. The audit was largely complete by early September.

The matters identified were not significant in nature, relating to disclosures or minor typographical errors, and were all amended by management.

Our work on the Commissioner's (and group) accounts is designed to provide reasonable assurance that they are free from material misstatement. The assessment of materiality is a key part of our work and we specify an overall materiality threshold, based upon 2 per cent of the Commissioner's gross revenue expenditure, together with lower materiality values for accounting entries we consider to be more sensitive, such as the senior manager remunerations. We consider materiality when planning and performing our work and in assessing audit results.

At the planning stage, we made a judgement about the size of misstatements which we would consider to be material and which gave a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We updated our materiality calculation when we received the draft accounts and set the overall level at £2.840 million for the Commissioner and £3.235 million for the group. Appendix A provides more information on our approach.

Having considered the risks of material misstatement, we identified three areas of significant risk, the first two of which are present in most audits. Our findings in this area are summarised below:

### Management override of controls (relevant to single entity and group accounts)

#### Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

#### How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates affecting amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

#### Audit conclusion

Our work on accounting estimates, significant transactions outside the normal course of business and journals provided the assurance we sought and did not highlight any material issues to bring to your attention.

## Revenue recognition (relevant to single entity and group accounts)

### Description of the risk

There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period. Due to there being a risk of fraud in revenue recognition we consider it to be a significant risk.

### How we addressed this risk

We evaluated the design and implementation of controls over year-end income accruals and performed procedures to establish that income is included in the correct year.

### Audit conclusion

Our audit provided the assurance we sought, and did not highlight any material issues in this area to report.

## Risk: Pensions entries (IAS 19) (relevant to single entity and group accounts)

### Description of the risk

The financial statements contain material pension entries in respect of retirement benefits.

The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions.

This results in an increased risk of material misstatement.

### How we addressed this risk

We discussed with key contacts any significant changes to the pension estimates prior to the preparation of the final accounts.

In addition to our standard programme of work in this area, we:

- evaluated the management controls you have in place to assess the reasonableness of the figures provided by the actuaries; and
- considered the reasonableness of the actuaries' outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.

### Audit conclusion

Our audit provided the assurance we sought, and did not highlight any material issues in this area to report.



We also identified the following area of management judgement that warranted additional audit procedures.

### Area of management judgement: Property, Plant and Equipment Valuations (relevant to single entity and group accounts)

#### Description of the area of management judgement

Valuations of these assets, in particular of land and buildings, require work from an expert valuer. Valuations of buildings must reflect both the condition of the building but also the valuation basis for that class of building as required by the CIPFA 'code'.

#### How we addressed this area of management judgement

We:

- examined the professional qualifications and assumptions used by your valuer in making valuations, ensuring that these have been done on the correct basis for each item;
- assessed whether the report produced by the valuer has been correctly reflected in the accounts; and
- assessed the reasonableness of your asset valuations in the financial statements using the work of our expert, Gerald Eve.

#### Audit conclusion

Our audit provided the assurance we sought, and did not highlight any issues in this area to report.

## **Annual Governance Statement**

The aim of the Annual Governance Statement is to give an overview of the governance arrangements in place during the year as well as any potential significant governance issues arising.

We reviewed the Annual Governance Statement to see whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the Commissioner (and group). We found no areas of concern to report in this context.

## **Weaknesses in internal control**

We did not identify any significant deficiencies in the accounting and internal control systems during the course of the audit.

## **Assurance to the National Audit Office and Certificate**

We issued our certificate, closing this year's audit, on 28 September 2016 on completion of our reporting to the National Audit Office on your Whole of Government Accounts return. There were no matters to report.

# 03

## Value for money

The Commissioner has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.



# 03 Economy, efficiency and effectiveness

We are required to conclude whether the Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by considering one overall criterion which is made up of three sub-criteria.

The overall criterion set out by the NAO is:

*'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'*

The three sub-criteria are set out below.

Sub-criteria
Informed decision making
Sustainable resource deployment
Working with partners and other third parties

We identified one significant risk relevant to the value for money conclusion. We detail below how we addressed the risk and our conclusion.

VFM risk
<b>Description of the risk</b> The Commissioner faces ongoing financial pressure, and this follows 5 years of budget cuts already having been made. We therefore had a VFM audit risk due to these factors.
<b>How we addressed this risk</b> We: <ul style="list-style-type: none"><li>• reviewed the MTFP to ensure it had been updated to reflect the funding update from central government issued in 2015; and</li><li>• reviewed the progress made in achieving savings to date against plan in order to gain audit assurance about the robustness of the savings planning processes.</li></ul>
<b>Conclusion</b> The updated MTFP was published in February 2016. As the MTFP was subject to review by Internal Audit, as requested by officers and in line with the External Audit / Internal Audit Protocol in place, we reviewed Internal Audit's work in order to minimise any duplication between us. Detailed findings on Internal Audit's review of the MTFP were reported by Internal Audit in their April 2016 report. Our review of their work provided us with the assurance that the MTFP had been updated for the latest funding settlement.  Our review of savings to date identified that there were no individual savings targets in the MTFP that was operational in 2015/16 (approved in February 2015) as the budget was fully balanced and any savings had been

integrated into existing budgets. A review of the budget monitoring during the year and the year end outturn confirmed that the budget was met.

The MTFP approved in February 2015 included a budget gap of £64 million over the 4 years to 2020. During 2015/16 this reduced by £56m, to an initial budget gap of circa £8 million, as a result of changes to assumptions and the better than previously forecast levels of Government Grant. Affordability Group plans over the four years total circa £31m of savings, leaving circa £23m to reinvest in services. We reviewed a small sample of the schemes (the largest in each year of the MTFP) underpinning the plans to make these savings, and found that each was supported by detailed information to support how the plans would be achieved. This therefore provided assurance, on a sample basis, that the plans that would ultimately ensure the budget remains balanced over the coming years, or indeed in surplus, were robust.

Based on the work we have carried out, we are satisfied we have mitigated the audit risk we identified for our value for money conclusion.

As part of our work, we also:

- reviewed the Commissioner’s annual governance statement;
- reviewed the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carried out risk-based work we determined appropriate.

Our review of these areas did not identify any further risks, or matters that impact on our value for money conclusion.

A brief summary of our findings against each of the sub-criteria and our overall assessment is set out in the sections that follow.

Sub-criteria	Aspect	Commentary
<b>Informed decision-making</b>	Acting in the public interest and applying the principles and values of sound governance.	<ul style="list-style-type: none"> <li>• Governance framework in place.</li> <li>• Police and Crime Plan in place for the period 2013 to 2016.</li> <li>• Police and Crime Panel in place.</li> <li>• Joint Independent Audit Committee in place.</li> </ul>
	Understanding and using appropriate and reliable financial and performance information	<ul style="list-style-type: none"> <li>• Performance monitored and reviewed, and regular reporting of financial and performance information.</li> <li>• Medium term planning (MTFP) undertaken and plans in place, and updated routinely.</li> </ul>
	Reliable and timely financial reporting that supports the delivery of strategic priorities.	<ul style="list-style-type: none"> <li>• Police and Crime Plan in place for the period 2013 to 2016.</li> <li>• Performance monitored and reviewed, and regular reporting of financial and performance information.</li> <li>• MTFP updated routinely, as above.</li> </ul>

Sub-criteria	Aspect	Commentary
	Managing risks effectively and maintaining a sound system of internal control.	<ul style="list-style-type: none"> <li>• Risk register and risk management arrangements in place. Risks reported to Audit Committee and regular reporting by Internal Audit.</li> <li>• Annual governance statement prepared, reviewed and approved.</li> </ul>
<b>Sustainable resource deployment</b>	Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	<ul style="list-style-type: none"> <li>• Financial and performance reports demonstrate a history of achieving financial targets.</li> <li>• MTFP updated for latest funding settlement, and programme in place to make efficiencies in order to reinvest in services.</li> </ul>
	Managing and utilising assets effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> <li>• Asset register in place.</li> <li>• Capital strategy in place.</li> </ul>
	Planning, organising and developing the workforce effectively to deliver strategic priorities.	<ul style="list-style-type: none"> <li>• HR policies and procedures in place and recruitment planning in place.</li> </ul>
<b>Working with partners and other third parties</b>	<p>Working with third parties effectively to deliver strategic priorities.</p> <p>Commissioning services effectively to support the delivery of strategic priorities.</p>	<ul style="list-style-type: none"> <li>• Examples of partnership working in place to reduce costs and improve service delivery such as: <ul style="list-style-type: none"> <li>○ Regional collaboration in Yorkshire and Humber,</li> <li>○ Project Evolve with Durham and Cleveland;</li> <li>○ Joint appointment of Officers with other PCCs;</li> <li>○ Estates collaboration with North Yorkshire Fire and Rescue Service, and Selby District Council; and</li> <li>○ Back office services shared with the Chief Constable, where appropriate.</li> </ul> </li> </ul>
	Procuring supplies and services effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> <li>• Written procurement procedures and policies in place.</li> </ul>



Having gathered evidence of the Commissioner’s arrangements for each of the sub-criterion we conducted a ‘reality check’, building upon our existing knowledge of the Commissioner and considering the robustness of our assessment by referring to:

- reports by statutory inspectorates or other regulators;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

Evidence	Auditor assessment
Reports by statutory inspectorates or other regulators	<p>We considered reports by any statutory inspectorates (HMIC) or other regulatory bodies during the year which might impact on our conclusion.</p> <p>We reviewed the value for money profiles (based on data from Public Sector Audit Appointments). Based on this review, there were no indicators which would suggest weaknesses in the Commissioner’s arrangements, or any information contrary to our knowledge of the Commissioner.</p>
Achievement of performance and other targets	Performance is good overall and North Yorkshire do not appear to be an outlier.
Performance against budgets and other financial targets	The Commissioner has a history of achieving budget targets.

## Conclusion

Having completed our assessment, and having carried out a ‘reality check’, we concluded that the Commissioner has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 28 September 2016.

# 04

## Future challenges

The Commissioner is facing a number of challenges over the next few years.



# 04 Future challenges

North Yorkshire has one of the lowest crime rates per 1000 population in England.

At a time of increasing pressure on public sector funding, the next few years will be a period of business change and innovation for the Commissioner as, together with the Chief Constable, they strive to continue to deliver improvements in services with increased value for money.

The Medium Term Financial Plan includes delivering savings to reinvest in services, such as the force's move to a new headquarters, continued investment in IT and recruitment of more police officers. The Commissioner and Chief Constable continue to explore and implement increased partnership working as a method to achieve better service provision and as an efficiency measure. In addition, there is also still some uncertainty as to how devolution may affect the region.

Our 2016/17 audit will focus on the risks that these and other challenges present to the Commissioner's financial statements, and ability to maintain proper arrangements for securing value for money.

In terms of the technical challenges that officers face around changes in the production and format of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

# 05

## Fees and closing remarks

The 2015/16 audit was delivered within the scale fee set by Public Sector Audit Appointments Limited.



# 05 Fees and closing remarks

We can confirm the final audit fee for 2015/16 was £32,430 plus VAT. We did not undertake any non-audit work in 2015/16.

We have discussed and agreed this letter with officers and will issue it to the Commissioner (as those charged with governance), and present it to the Joint Independent Audit Committee on 13 December 2016.

During the audit year we have continued to support the Commissioner in other ways, including attendance at Joint Independent Audit Committees where we inform the Committee about progress on the audit, report our key findings and update it about developments in the sector and the wider environment, and hosting events for staff, such as our Accounts workshops, or more focused Accounts update sessions, as appropriate.

Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the Commissioner during the year, which are summarised below.

Report	Date issued
2015/16 Audit Fee Letter	April 2015
Audit Strategy Memorandum	March 2016
Progress reports to Audit Committee	To each Audit Committee meeting
Audit Completion report, and follow up letter	September 2016
Auditor's Report (opinion, VfM conclusion and certificate)	September 2016
Annual Audit Letter	October 2016

The Commissioner has continued to take a positive and constructive approach to our audit and I wish to thank her and the Joint Independent Audit Committee for their continued support and co-operation throughout the year. We would also like to record our appreciation for the assistance and co-operation provided to us during our audit by finance staff.

We are committed to supporting the Commissioner to move forward with clarity of purpose and strong governance and accountability arrangements. We will meet with the officers to identify learning from the 2015/16 audit and will continue to share our insights from other client and relevant knowledge from the wider public and private sector.

**Cameron Waddell**  
**Partner**  
**October 2016**

# Appendix A – Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assumed that users:

- have a reasonable knowledge of business, economic activities and accounts
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We considered materiality whilst planning and performing our audit.

Whilst planning, we made judgements about the size of misstatements which we considered to be material and which provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

In 2015/16 we set materiality at the planning stage at £3.077 million for the Commissioner and £3.219 million for the Group (2% of gross revenue expenditure) with a clearly trivial threshold of £92,000 for the Commissioner and £97,000 for the Group, below which identified errors will not usually be reported. We set lower materiality levels for the accounting entries we consider to be more sensitive, for example, senior officer's remuneration, as we considered these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, was £2.840 million for the Commissioner and £3.235 million for the Group, with a clearly trivial threshold of £85,000 for the Commissioner and £97,000 for the Group, below which identified errors were not reported.

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit and we reported in our Audit Completion Report and follow up letter all unadjusted misstatements we identified other than those which were clearly trivial, and obtained written representation that explained why these remain unadjusted.



Should you require any further information, please do not hesitate to contact:

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This Annual Audit Letter is prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies 2015-16’ issued by Public Sector Audit Appointments Ltd. It is addressed to the Police and Crime Commissioner for North Yorkshire as ‘those charged with governance’. We, as appointed auditor, take no responsibility to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy organisation, and is a limited liability partnership registered in England with registered number OC308299. A list of partners’ names is available for inspection at the firm’s registered office, Tower Bridge House, St Katharine’s Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861.